

real estate

Condo-Ology®: A former front line condo manager's perspective

The Misconception of the "Monthly Condominium Fees"

Andy Wallace, a pioneer in condominium management industry, had a saying that has resonated with me over my career, "Prior to condominium ownership, only the very wealthy could afford the lifestyle which today's condominium owners have and expect". The condominium fees of a well run condominium corporation provides a tremendous value by financing the condominium lifestyle one has chosen.

Condominium fees are often referred to as "maintenance fees". I believe the term "maintenance fees" is misleading as the day to day maintenance of a condominium corporation represents just a single aspect of the monthly condominium fees. Maintenance refers to the physical up keep of buildings, grounds and equipment (common elements) and is extremely important, but there are more considerations with respect to monthly condominium fees that are necessary to understand.

Monthly condominium fees are divided into two different financial requirements of condominium ownership: 1) annual operational expenses (the day to day costs) and; 2) annual reserve fund (savings) contributions, used to fund future replacements and significant repairs to the common elements.

1) Annual Operational Expenses

The day to day annual operations expenses includes the cost of maintenance as well as variety of ongoing administration obligations. Administration obligations include management, insurance, reserve fund preparation, auditing, legal, condominium consulting, etc. In larger condominium corporations, there are additional operational requirements which may include in suite utilities, concierge, security, life guards, communications (cable/satellite/internet), parking attendance, etc.

As an extraordinary case, I am know of one condominium corporation that subsidizes a common element restaurant, which is only available to the residents, and even has a budgeted amount for a pianist.

2) Annual Reserve Fund (Savings) Contributions

The annual reserve fund contributions are a mandatory savings requirement of the condominium fees, but are usually overlooked when considering monthly condominium fees. The saving requirement will represent anywhere from 15% to over 60% of the owners monthly condominium fees.

This understanding is critical for all current owners and those considering a condominium purchase. Currently, a high majority of condominium reserve funds are underfunded. In these cases, the dollar amount of the monthly condominium fees allocated for annual reserve fund contributions have been historically low. I believe this is starting to change and be remedied as directors, owners and buyers are becoming increasingly educated with regards to condominium ownership and condominium operations.

When a condominium owner sells their unit they cannot directly claim reimbursement of their unit's portion of the reserve fund balance. However, the condominium owner is indirectly compensated as this contribution is transferred to the new owner and the value is attributed to the proportional reserve fund status.

Summary

It's complicated to compare 'apples to apples' condominium fees. There are many variations that have to be considered. It would be prudent for a prospective purchaser, comparing two condominium units, with condominium fees of \$350.00 per month and \$500.00 per month respectively, to undertake further investigations to determine where the discrepancy lies. The day to day operating costs of similar condominium corporations with respect to physical and standard objectives should not vary greatly. However, should one condominium corporation have substantially lower condominium fees, it may be a 'red flag' that the condominium corporation has minimal savings funding the reserves which could indicate poor financial planning.

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